

Internal Revenue Service

Department of the Treasury

District  
Director

1100 Commerce St., Dallas, Texas 75242

Date: NOV 20 1997

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of [REDACTED]. According to your Articles of Incorporation, your purpose is to engage in any lawful activities authorized by [REDACTED].

Your stated mission is "to engage area employers, providers, and employees in the application of continuous improvement principles to the local [REDACTED] system in order to assure maximum value." You are working together to ensure [REDACTED] member company's best interest through locally owned and controlled [REDACTED] delivery for employers in [REDACTED] and [REDACTED] counties. As an alliance participant, your members receive health benefits and plan design flexibility normally reserved for large groups. Your members can choose from several health provider systems in your community at cost effective prices.

Membership in your organization is open to any employer located in [REDACTED] or [REDACTED]. Each member must pay a monthly participation fee of \$[REDACTED] and a monthly administrative fee of \$[REDACTED] per month per employee.

All your income is derived from fees charged your employer-members. Your primary expense is the payment of billing services on behalf of your members.

The following statements appeared in your application:

The [REDACTED] is a partnership of area employers, local providers and area [REDACTED] that was formed in [REDACTED]. Its mission is to keep [REDACTED] local, while offering employers and their employees choices of carriers and [REDACTED] plans as well as guaranteed rates.



The employer members of the Alliance enjoy the benefits of the combined headcount of the Alliance when group insurance rates are negotiated with the carriers. Our strength is in the combined numbers of all our members which provides everyone better rates than they could negotiate on their own.

Your organization negotiates and maintains contracts with the licensed [REDACTED] insurers who provide [REDACTED] benefits to your member employers. A sample contract is attached as Exhibit 1.

Section 501(c)(3) of the Code provides exemption for:

"Corporations...organized and operated exclusively for religious, charitable...or educational purposes...no part of the net earnings of which inures to the benefit of any private shareholder or individual..."

Section 1.501(c)(3)-1 of the regulations provides, in part, as follows:

"(a)(1) In order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt."

"(a)(2) The term "exempt purpose or purposes," as used in this section, means any purpose or purposes specified in section 501(c)(3), as defined and elaborated in paragraph (d) of this section."

"(d)(1) In general. (i) An organization may be exempt as an organization described in section 501(c)(3) if it is organized and operated exclusively for one or more of the following purposes:

- (a) Religious,
- (b) Charitable,
- (c) Scientific,
- (d) Testing for public safety,
- (e) Literary,
- (f) Educational, or
- (g) Prevention of cruelty to children or animals."

"(c)(1) Primary activities. An organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose."

"(c)(2) Distribution of earnings. An organization is not operated exclusively for one or more exempt purposes if its net earnings inure in whole or in part to the benefit of private shareholders or individuals."



"(d)(1)(ii) An organization is not organized or operated exclusively for one or more of the purposes specified in subdivision (i) of this subparagraph unless it serves a public rather than a private interest. Thus, to meet the requirement of this subdivision, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled, directly or indirectly, by such private interests."

According to Revenue Ruling 61-170, 1961-2 C.B. 112, a nurses' association which maintains an employment registry primarily for the employment of its members is not entitled to exemption as a charitable organization under Section 501(c)(3). The organization is primarily engaged in the performance of personal services by operating an employment service principally for the benefits of its members.

According to Revenue Ruling 69-175, 1969-1 C.B. 149, a nonprofit organization formed by parents of pupils attending a private school that provides school bus transportation for its members' children serves a private rather than a public interest, and does not qualify for exemption under section 501(c)(3) of the Code.

On the basis of the information submitted, we have concluded that you are not operated exclusively for one or more purposes as specified in section 501(c)(3) of the Code. Section 501(c)(3)-1(d)(1)(ii) of the Code states that an organization must serve a public rather than a private interest. When a group of individuals associate to provide a cooperative service for themselves, they are serving a private interest. By negotiating contracts with carriers, your organization is helping reduce the expense of your member employers. Like the organization in Revenue Ruling 61-170, you are providing a personal service for your members.

Like the organization in Revenue Ruling 69-175, you do not qualify for exempt status under Section 501(c)(3) because your activities are not exclusively charitable. You are serving the private business interests of your members by offering them choices of insurance carriers, health plans, as well as guaranteed rates and billing services. These activities are outside the scope of exempt status under Section 501(c)(3) because they provide substantial benefits for your employer members rather than serve any public interest.

Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(3) of the Code. You are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.




If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Code as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If this determination letter becomes a final determination, we will notify the appropriate State Officials, as required by section 6104(c) of the Code, that based on the information we have, we are unable to recognize you as an organization of the type described in Code section 501(c)(3).

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,



Acting District Director

Enclosures:  
Publication 892  
Form 6018